



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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July 22, 2011

TO: Mitchell H. Katz, M.D., Director
Department of Health Services

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **HIGH DESERT MULTI-SERVICE AMBULATORY CARE CENTER
EQUIPMENT AND WAREHOUSING REVIEW**

We completed a review of the Department of Health Services' (DHS) High Desert Multi-Service Ambulatory Care Center's (High Desert) compliance with County equipment and supply warehousing policies and procedures. Our review included interviewing High Desert personnel, evaluating equipment oversight and tracking, inventorying a sample of equipment and supplies, and observing warehouse and stockroom operations.

Summary of Findings

We noted that High Desert generally maintains good controls over its supplies. However, High Desert management needs to ensure consistent compliance with County equipment and supply monitoring requirements. For example, we noted that High Desert needs to maintain accurate and complete equipment lists, physically inventory their non-capital equipment annually, and monitor supply inventory for slow moving, obsolete and overstocked items. The following are the detailed results of our review and recommendations for corrective action.

Capital and Non-Capital Equipment

As of April 2009, High Desert's capital equipment (assets costing more than \$5,000 with a useful life of more than one year) had a total acquisition cost of approximately \$6.4 million. High Desert also has non-capital (portable) equipment, that cost less than \$5,000 per item. Departments are required to track non-capital equipment, but are not required to keep a record of the total cost of non-capital equipment.

Physical Inventories and Missing, Obsolete and Disposed Equipment

County Fiscal Manual (CFM) Sections 6.1.3 requires departments to maintain a list of all equipment, and to do a physical inventory of their capital equipment every two years. CFM Section 6.8.2 requires departments to inventory their non-capital equipment every year. We noted that High Desert completes an inventory of its capital equipment every two years, as required. However, since Fiscal Year 2005-06, High Desert has only completed a partial inventory of their non-capital equipment. According to High Desert management, staff randomly select a sample of equipment, and verify that the equipment is on their non-capital equipment list. However, this method will not identify all missing, obsolete and damaged equipment. High Desert management should inventory all non-capital equipment by physically locating each item on the equipment list every year.

In addition, High Desert's capital and non-capital equipment lists were not accurate. We tested 27 capital assets and 26 non-capital assets from High Desert's equipment lists and noted the following:

- **Missing equipment** – High Desert could not locate nine (33%) capital assets and one (4%) non-capital asset, valued at \$153,300 and \$1,200, respectively. Missing assets included ultrasound machines, printers, a microscope and an audiometer. High Desert indicated that the capital assets were salvaged, but could not provide documentation that the items were salvaged. They could not determine why the non-capital asset was missing.
- **Obsolete and unused equipment** – Two (7%) capital assets, valued at \$53,300, and two (8%) non-capital assets, valued at \$5,100, were obsolete and have not been used for over one year. Specifically, High Desert indicated that an anesthesia machine, treadmill, laptop computer and printer were obsolete. High Desert should have disposed of these assets by either selling, transferring (to other DHS facilities) or retiring them in accordance with County policy.
- **Equipment list not updated for disposition of equipment** – High Desert did not remove four (15%) capital assets, totaling \$243,200, from the list when the assets were sold, returned to the vendor in exchange for other equipment, or transferred to another DHS facility.
- **Equipment not properly categorized** – High Desert should have categorized one of the non-capital assets as a capital asset, since it had an acquisition cost of \$24,700.

We also randomly selected 15 non-capital assets throughout the Facility to verify that the non-capital equipment list was complete, and noted that seven (47%) of the assets were not on the list. The assets included a computer monitor, printer and audiometer.

Recommendations

High Desert management:

- 1. Immediately complete a physical inventory of all equipment to identify missing or obsolete assets, ensure the inventory is completed correctly by physically locating each item on the equipment list, and inventory non-capital equipment annually.**
- 2. Dispose of obsolete or unused capital and non-capital equipment by either selling, transferring or retiring them according to established policy, and update the equipment lists when assets are disposed of.**
- 3. Ensure equipment lists include all equipment located at the Facility, and categorize equipment that costs more than \$5,000 as capital equipment.**

Tracking and Oversight

CFM Sections 6.2.1 and 6.8.1 require departments to place tags on their capital and non-capital equipment, and assign responsibility for equipment to specific individuals. We noted that High Desert does not tag all of its equipment. In addition, High Desert does not always assign responsibility for equipment to specific individuals, and some of the assigned individuals do not keep accurate lists of the equipment assigned to them.

Recommendations

High Desert management:

- 4. Attach tags to capital and non-capital equipment when received.**
- 5. Assign responsibility for all capital and non-capital equipment to specific individuals and require them to keep an accurate list of the equipment assigned to them.**

Antelope Valley Rehabilitation Centers

High Desert's capital and non-capital equipment lists include equipment located away from High Desert at the Antelope Valley Rehabilitation Centers. The Rehabilitation Centers were transferred to the Department of Public Health (DPH) when it separated from DHS in July 2006. High Desert has identified the equipment at the Rehabilitation Centers, and has begun transferring responsibility of the equipment to DPH. High Desert should continue to work with the Auditor-Controller's Capital Assets Unit and DPH to determine which department is responsible for the capital and non-capital

equipment at the Rehabilitation Centers, transfer responsibility for equipment where necessary, and revise equipment lists accordingly.

Recommendation

- 6. High Desert management continue to work with the Auditor-Controller's Capital Assets Unit and the Department of Public Health to determine which department is responsible for the capital and non-capital equipment at Antelope Valley Rehabilitation Centers, transfer responsibility for equipment where necessary, and revise equipment lists accordingly.**

Warehousing/Inventory

High Desert has one supply warehouse, with inventory totaling approximately \$155,000, as of April 2009. High Desert adequately secures the warehouse, restricts supply access to authorized employees, and does an annual physical inventory of supplies, as required by CFM. In addition, we completed a physical inventory of supplies at the warehouse and noted that High Desert's perpetual inventory records were accurate. However, High Desert staff do not monitor supply inventory for slow moving, obsolete and overstocked items. We noted that High Desert has 106 different types of supplies on hand that have not been taken out of the inventory for between one and eight years. We reviewed 17 of the 106 supplies, and noted that nearly all of them are no longer used by the Facility. High Desert should monitor supply inventories for slow moving, obsolete and overstocked items, and only order supplies when needed.

Recommendation

- 7. High Desert management ensure staff monitor supply inventories for slow moving, obsolete and overstocked items, and only order supplies when needed.**

Internal Control Certification Program

The Auditor-Controller developed the Internal Control Certification Program (ICCP) to assist County departments in evaluating and improving internal controls over fiscal operations. Departments must review and evaluate controls in key fiscal areas and certify that proper controls are in place or that action is being taken to correct any deficiencies or weaknesses noted.

Many of the issues we noted in High Desert's equipment and warehousing operations should have been identified when High Desert completed the ICCP for FY 2007-08. However, their certification did not identify any equipment or warehousing control weaknesses. High Desert management should ensure that the ICCP questionnaires

are accurately completed, all internal control weaknesses are identified and an improvement plan is developed for each weakness.

Recommendation

- 8. High Desert management ensure the ICCP questionnaires are accurately completed, all internal control weaknesses are identified and an improvement plan is developed for each weakness.**

Review of Report

We discussed the results of our review with High Desert management. They agreed with our findings and recommendations and indicated they will work to improve controls over their equipment and warehousing practices. High Desert's attached response describes the corrective actions they have taken, or plan to take, to address the recommendations in our report.

We thank High Desert management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Mike McWatters at (213) 253-0104.

WLW:JLS:MWM

Attachment

c: Beryl Brooks, Chief Executive Officer, High Desert
Jennifer Papp, Audit and Compliance Division, DHS
Audit Committee



March 25, 2011

**Los Angeles County
Board of Supervisors**

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TO: Wendy L. Watanabe
Auditor-Controller

FROM: Mitchell H. Katz, M.D.
Director

SUBJECT: **RESPONSE TO AUDITOR-CONTROLLER'S REVIEW
OF EQUIPMENT AND WAREHOUSING - HIGH
DESERT MULTI-SERVICE AMBULATORY CARE
CENTER**

Mitchell H. Katz, M.D.
Director
John F. Schunhoff, Ph.D.
Chief Deputy Director

Attached is the Department of Health Services' response to the recommendations made in the Auditor-Controller's report of its review of Equipment and Warehousing at High Desert Multi-Service Ambulatory Care Center. We concur with and have taken or initiated corrective actions to address the recommendations contained in the report.

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If you have any questions or require additional information, please let me know or you may contact Lorayne Lingat at (213) 240-7901.

MHK:ll

Attachment

c: John Schunhoff, Ph.D.
Carolyn Rhee
Beryl Brooks
Gregory Polk
Lorayne Lingat

*To ensure access to high-quality,
patient-centered, cost-effective
health care to Los Angeles County
residents through direct services at
DHS facilities and through
collaboration with community and
university partners.*



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COUNTY OF LOS ANGELES – DEPARTMENT OF HEALTH SERVICES
RESPONSE TO AUDITOR-CONTROLLER EQUIPMENT AND WAREHOUSING REVIEW
HIGH DESERT MULTI-SERVICE AMBULATORY CARE CENTER

AUDITOR-CONTROLLER RECOMMENDATION #1

High Desert Multi-Service Ambulatory Care Center (HD MACC) management immediately complete a physical inventory of all equipment to identify missing or obsolete assets, ensure the inventory is completed correctly by physically locating each item on the equipment list, and inventory non-capital equipment annually.

DHS response:

We agree. In December 2010 a physical inventory of capital equipment was completed. Equipment lists will be updated for missing and/or obsolete items identified during the inventory and the information will be submitted through eCAPS by June 1, 2011. Finance staff will work with the Auditor-Controller to ensure the Fiscal Year 2010-2011 capital equipment list published by October 31, 2011 is accurate and complete.

Finance staff will update the non-capital (portable) equipment database by June 30, 2011, identifying missing items and obsolete items which are being sent to salvage. By July 1, 2011, an updated portable equipment inventory list will be distributed to department managers along with the HD MACC Portable (non-capital) Equipment Inventory policy being developed which will instruct the managers to conduct their own physical equipment inventory and report back to Finance by August 15, 2011, which will be an annual assignment that will go out every July. By November 30, 2011, once the equipment has been salvaged, the capital equipment list and the non-capital equipment database will again be updated.

AUDITOR-CONTROLLER RECOMMENDATION #2

HD MACC management dispose of obsolete or unused capital and non-capital equipment by either selling, transferring or retiring them according to established policy, and update the equipment lists when assets are disposed of.

DHS response:

We agree. Unused and obsolete capital and non-capital equipment is being disposed of according to County Fiscal Manual (CFM) 6.10.3, Equipment - Sold, Traded In, Transferred, Stolen or Disposed, which will be completed by November 15, 2011. The internal equipment lists for capital and non-capital equipment will be updated after equipment disposal is completed, by November 30, 2011. HD MACC will submit information through eCAPS and follow up with the Auditor-Controller to ensure the eCAPS capital equipment list has been appropriately revised. The HD MACC Portable (Non-Capital) Equipment Inventory policy being developed will instruct each department to identify items for salvage at least annually, in conjunction with conducting their annual portable (non-capital) equipment inventory in compliance with the CFM.

AUDITOR-CONTROLLER RECOMMENDATION #3

HD MACC management ensure equipment lists include all equipment located at the Facility and categorize equipment that costs more than \$5,000 as capital equipment.

DHS response:

We agree. By December 31, 2010, Warehouse and Finance staff was re-trained on County Fiscal Manual 6.1.1, Definition of Capital Assets, and reminded that capital equipment should be recorded on the equipment list and should not be recorded in the portable equipment inventory database. The capital and non-capital equipment lists will be updated by June 30, 2011.

AUDITOR-CONTROLLER RECOMMENDATION #4

HD MACC management attach tags to capital and non-capital equipment when received.

DHS response:

We agree. In September 2010, Warehouse staff was re-trained on the appropriate tags for capital and non-capital equipment and will be applied as soon as the equipment is received in the warehouse. In September 2010, Finance staff met with Facilities Management staff to remind them not to remove tags when they affix maintenance tags. By March 31, 2011, Warehouse staff will ensure that all equipment items identified without tags are re-tagged and the Fixed Asset Inventory Control Policy and Procedure will be revised as needed. Finance staff will follow up with the Auditor-Controller's

Capital Assets Unit to ensure that the new tag information was received and will appear on the next published listing.

AUDITOR-CONTROLLER RECOMMENDATION #5

HD MACC management assign responsibility for all capital and non-capital equipment to specific individuals and require them to keep an accurate list of the equipment assigned to them.

DHS response:

We agree. Department managers will be required to perform a physical inventory of all equipment located in their area(s) of responsibility and submit the information to Finance by August 15, 2011. Department managers will be expected to maintain the inventory list, making necessary additions, deletions, and/or changes in location and ensuring all changes are reported to Finance staff who will maintain the master inventory lists. Capital and non-capital equipment will be salvaged by November 15, 2011, and Finance staff will update its capital equipment listings and portable (non-capital) equipment inventory database at this time.

AUDITOR-CONTROLLER RECOMMENDATION #6

HD MACC management continue to work with the Auditor-Controller's Capital Assets Unit and the Department of Public Health (DPH) to determine which department is responsible for the capital and non-capital equipment at Antelope Valley Rehabilitation Centers (AVRC), transfer responsibility for equipment where necessary, and revise equipment lists accordingly.

DHS response:

We agree. On November 10, 2010, Finance staff submitted equipment transfer documents through eCAPS to transfer 25 of the 41 identified capital and non-capital equipment items listed for AVRC. Finance staff is working with DPH's Finance staff and will submit additional equipment transfer documents as necessary through eCAPS by April 1, 2011, and will follow up with the Auditor-Controller's Capital Assets Unit regarding the status of the changes sent in November 2010, to ensure the remaining AVRC equipment is reported correctly on the Auditor-Controller's Fiscal Year 2010-2011 list which will be published by October 31, 2011. The capital and non-capital equipment lists will be revised by June 30, 2011.

AUDITOR-CONTROLLER RECOMMENDATION #7

HD MACC management ensure staff monitor supply inventories for slow moving, obsolete and overstocked items, and only order supplies when needed.

DHS response:

We agree. In September 2010, Warehouse staff was re-trained on monitoring supply inventory for slow-moving, obsolete and overstocked items on a regular basis. Staff were instructed to work with ordering departments to see if item is still needed, or if it can be deleted from warehouse stock and ordered as needed.

AUDITOR-CONTROLLER RECOMMENDATION #8

HD MACC management ensure the ICCP questionnaires are accurately completed, all internal control weaknesses are identified and an improvement plan is developed for each weakness.

DHS response:

We agree. By March 31, 2011, HD MACC management will review the ICCP questionnaires to ensure that the ICCP questionnaires are accurately completed in accordance with current operating procedures and that an improvement plan is developed for each identified weakness.